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26 November 2007

Dear John

Re: DNPC03 – LDZ System Charges Capacity Commodity Split and Interruptible Discounts – Draft Impact Assessment

Please find attached comments on behalf of Shell Gas Direct (SGD) Ltd, the holder of gas supply (non-domestic) and shipper licences, in response to some of the questions raised in this document. You may wish to note that SGD has previously indicated it could not give unqualified support for this proposal.

In any event, for the avoidance of doubt, this letter is not confidential and so may be placed on your website.

Chapter 2 - Key Issues

Question 1 - What are the respondent's views on our assessment of the proposal against the objectives of the distribution charging methodology.

With respect to the specific issue of facilitating competition, stable and predictable charges should be welcomed. Other things being equal, charges with these characteristics should help facilitate competition.

However, given that the document notes that this proposal would entail the transfer of risk from network operators to shippers (see paragraph 6.20), it would seem sensible to consider the extent to which this lower level of risk can be factored into the current GDN Price Control proposals? If the answer is that it cannot, an inference is that stable charges will have been attained at a higher level than should be the case as allowed revenue would not have been set at a level commensurate with actual risk.

SGD would therefore welcome clarification with respect to this particular point. Dependent on the answer, it may be that there is another cost to be considered within the context of Chapter 6 and included in this Impact Assessment.

SGD has no further comments to make with respect to this chapter.

Chapter 3 – Distributional Impacts

SGD has no substantive comments to make other than to say: that the methodology seems appropriate; and that we are supportive of the intention to maintain the current interruptible discount.

Chapter 4 – Other Impacts

Question 1 – What are the respondent's views on our analysis of the impact that might result from implementation of the proposal?

With respect to impact of this proposal on Small Businesses and the Environment, the Impact Assessment details the:

- a) the marginal nature of the impact of this proposal (given the amounts of money involved); and
- b) the fact that Use of System charges, in any event, form a relatively small proportion of the final bill.

Given the above, it therefore seems difficult to understand how implementation of this proposal could have an appreciable or measurable impact on Security of Supply. While anything that benefits Security of Supply is to be welcomed (and there may be a marginal benefit), the impact of this proposal should not, therefore, be overstated.

SGD cannot offer any further comments with respect to Question 2 and possible environmental impacts.

Chapter 5 – Unintended Consequences

Question 1: Can respondents identify additional significant unintended consequences?

The potential impact of this proposal on the use of Standing Charges should not be considered within the context of the domestic market alone. Rather, such an assessment should reference the potentially significant impact of this proposal on the level of standing charges in the I&C market, especially at the smaller end of this market segment where there may be a delay between addressing any divergence between annual consumption and the AQ.

If DNPC03 is implemented, any decision to approve bi-annual charging adjustments should wait pending an assessment of DNPC03's impact on charging stability. To that degree, SGD concurs with Ofgem's view to defer any decision on this issue until a view has been reached on the capacity/commodity split issue.

Chapter 6 – Cost Benefit Analysis

Question 1: Do respondents believe that we have identified all relevant costs and benefits?

With the exception of the issue raised in response to Chapter 2, Question 1 (see above), SGD is content that all relevant costs and benefits appear to have been raised.

Question 2: Do respondents believe that our quantification of costs and benefits is correct? Interested parties are requested to provide information about any costs and benefits they can identify, which will inform our final IA.

Clearly, the IT costs will vary from shipper to shipper. However, given that this is a public response, SGD's only comment is that these costs would not be insignificant.

A weakness of the Impact Assessment is the lack of detail with respect to any impact on XOSERVE's costs. As such, this element of hostage to fortune regarding XOSERVE's position affects not only a more accurate analysis of likely shipper costs but also the overall cost / benefit analysis of this proposal.

I hope you have found these comments useful. If you have any questions or require further clarification, please do not hesitate to contact me.

Yours sincerely

A handwritten signature in purple ink, appearing to read 'ABal'.

Amrik Bal

UK Regulatory Affairs Manager, Shell Energy Europe